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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE business situation has continued depressed during March. Trade and industrial reports have shown no general improvement, and in the security markets prices of stocks and the lower-rated bonds have broken through their previous lows. Evidently they had been supported by hope of a greater Spring pick-up in business than now seems likely, and the decline reflects the disappointment. Commodity prices have been weak. The successive crises in foreign affairs, adding the threat of a European war to the political and economic difficulties already existing, have made the month a period of anxiety on that score.

Most experienced observers now agree that the Central European crisis has passed and that war has been held off once more. Nevertheless, unsettlement in the markets for highest-grade bonds has reflected the anxieties of capital, and in the foreign exchange markets the European currencies have been under pressure.

Effects of Foreign Situation

Naturally there has been a rush of comment as to the effects of continued tension abroad, and possible war, upon the United States. Some argue that weakness in other currencies signifies strength in the dollar, and hence that this country stands to benefit by conditions which bring capital and gold here. Needless to say, this is a narrow view. On the contrary, it is deplorable and disheartening that conditions still exist which are driving capital from one country to another in search of safety. These abnormal movements, now as throughout the depression, are evidence only of insecurity and distress. The money is of no lasting benefit to the countries which receive it, for it will not be put to long-term productive use, and will be as quick to take alarm in the future as in the past. Moreover, in amount it cannot make much impression upon the complex economy of this country, which has more than enough idle money already.

It is widely assumed that the United States would not be involved in another general war, and that it would be benefited, due to the demand for American products. This is a short-sighted view, and there is no certainty that it would be even temporarily correct. A large volume of war orders would indeed increase the demand for labor and probably cause a rise of prices. However, world business is already supported by an expenditure upon armaments, public works, relief, and equivalent Governmental activities which is equal to the costs of war, save for the maintenance of armies in the field and the destruction of material. There is a question as to how many countries could increase their purchases in the United States. Would loans likely be made to them, even if the law now prohibiting loans were rescinded? To be sure, a few countries have gold, and their people have funds here which could be sequestered and used to pay for goods. But the latter would involve liquidation of the investments in which these funds are now placed. What would be the effect of neutrality policies?

We raise these questions not to answer them, but to suggest the complexities. Can any one say which effects would be dominant: fright, liquidation and disruption of trade and sources of supply, or an inflow of orders?

Moreover, everyone knows by this time that war "prosperity" is not real prosperity. On the contrary, it is a profligate and disastrous waste of labor, capital and resources, financed by debt; and no country, whether involved or not, and even if temporarily stimulated, can escape its eventual consequences. Whatever the reasoning advanced, the capital markets instinctively recognize that war is disaster. The drop in high-grade securities, here and in London, is the evidence. It shows how one element of the community, including everyone with savings, is affected; and this is the other side of war and armament booms, as of all inflation.

Finally, the tendency toward renewed disorder in the exchanges cannot be viewed with complacence. The recession in the European

currencies may not go far, in view of the gold held by the countries involved; and the world has accumulated great resources in the way of stabilization funds and controls, to defend against another currency debacle. Nevertheless, the weakening in Europe and elsewhere, including in the recent past Argentina, Mexico and China, is disquieting. It will cause fresh loss to businesses with funds in those countries, and is depressing to prices, since each country affected must inevitably try to sell more and buy less to balance its position.

The Rail Rate Decision

In the domestic situation the most important event of the month was the announcement of the Interstate Commerce Commission's decision in the railways' application for higher freight rates. Increases estimated to yield around $175,000,000 on the basis of 1936 traffic were granted. But as car loadings lately have been running below even the 1932 totals, the revenue produced is likely to fall substantially below the needs of the roads. Hence the decision was disappointing to them, and the security markets also put an unfavorable interpretation upon it. Not much in the way of new equipment buying is expected to follow.

The roads are now moving to reduce wages, which were raised by an estimated $134,000,000 last Fall, just as the slump in traffic was beginning. But wage reductions evidently will be hard to negotiate, although the scales are the highest ever known, roughly 8 per cent above 1929; the ability of the roads to pay them is smaller than ever before (see statement of earnings, pages 44-5); and their financial position is endangered, with a threat to securities in which many millions of people directly or indirectly have savings. The situation illustrates again the principal danger in contractual wage advances such as were made in many industries in 1937, without provision for flexibility to meet changes in conditions. However warranted the higher wage scales are in prosperous and active times, industry is thrown into disorder if they remain in effect after they can no longer be borne.

Business men move reluctantly to reduce wage scales, even where the necessity is as strong as on the railroads. If there were general understanding that in the long run labor which has become too expensive will give up in loss of employment whatever it gains from the higher nominal wage scale, and more, the necessary cooperation would doubtless be given. Unfortunately experience has shown that this understanding does not generally prevail, over what each assumes to be his self-interest, until depression and distress have driven home the need of readjustments. By that time the economic system is usually in disorder, and everyone suffering.

That the railroad difficulties are confined to wage rates, of course no one maintains. Other measures will be needed before the roads will be contributing to recovery instead of retarding it. Wage questions will likely remain in abeyance at least until Administration studies of possible railway reorganization, and economies not at the expense of labor, are carried out. The railroad situation is certain to be one of the foremost in public importance in the months ahead.

A Poor Start on Spring Business

We have referred briefly to the trade and industrial reports. There is little evidence of improvement except where seasonal gains have occurred; and in most cases these have been less than hoped for. The Federal Reserve Board's index of industrial production, which was 117 last August, was 80 in January, 79 in February, and probably a point or two lower in March. When a real Spring improvement is in the making it is usually well along by this time, with evidence of forward buying, increased production of materials and equipment, and active placing of contracts, to say nothing of expanding sales of automobiles and other confirmation that consumers have money to spend. In many industries March operating rates are frequently the highest of the year. Hence after a disappointing March the precedents are against anything more than a modest pickup later in the Spring.

Opposed to this disappointment, there is comfort in the fact that the rate of decline, as shown by the above-quoted index, has slowed down to small proportions, and that in the broad sense the trend is sideways. There could hardly be recovery without establishment of a base, to which adjustments can be made.

Inventory Reduction Irregular

Hopes of improvement about this time were based partly on belief that inventories would be worked down and buyers would have to come back in the markets. However, the absorption of excess stocks is requiring longer in some quarters than the optimists calculated. Always the vicious circle operates for a time to slow up inventory reduction, since the drop in one man's purchases curtails another's sales, and all have to adjust to a declining consumption.

In retailing and distribution the evidence is that stocks are no longer an impediment to recovery. Department store inventories on March 1 were 8 per cent below a year earlier, and after Easter the reduction will be much greater, since the peak last year was not reached until August. General Wood of Sears, Roebuck & Co. recently stated that although the company's inventory on January 31 was up 5 per cent, commitments to buy were off 28 per cent, and the inventory has now been reduced below a year ago. Montgomery Ward's

stocks on January 31 were around 12 per cent lower than last year. Everywhere commitments are sharply lower.

Stocks of some manufactured goods have been reduced to low figures; but in many lines, including the metal-working industries and others making durable goods, they will have to be worked still lower before buying recovers to the level of consumption.

As to the prospect when inventory reduction is considered to have run its course, opinions differ. Of course buying will improve to the sales level. It is likely, however, that inventories are being over-emphasized at this stage, both by the pessimists as a depressing factor and by the optimists as an influence that will soon start a vigorous upward movement. The truth is that "large" and "small" stocks are both relative. If other developments should be favorable present inventories would not block improvement, and this is especially true of the raw materials accumulating in the hands of mining companies and other producers; they always rise in depression, and decline as demand resumes. But neither will recovery come automatically through inventory reduction. Experience as recent as 1932 shows that business can continue depressed for a long time even after stocks of goods and materials are cut to the bone. The chief emphasis belongs on other elements in the situation, on the need to balance costs and prices to get consumer buying power flowing; and on all the complex factors that influence investment, profit, business planning and business spending.

The markets show that business men are taking a conservative view of at least the nearby prospect. Buying policies continue hand-to-mouth, both in raw materials and manufactured goods. Staple commodity prices, on the average, are at the lowest of the year, and although the decline has not been sharp, new lows for the depression were established during the month in rubber, zinc, and steel scrap, among industrial materials, and wheat, sugar, and coffee, among the foods.

The Industrial Situation

The automobile industry is usually a leader in Spring business, but thus far has not supplied its normal support. Assembly rates during March have been little better than in February; this is a reflection of large dealers' stocks and disappointing sales, which have been running behind last year by more than 40 per cent. The best selling season is still ahead and the second quarter will doubtless gain over the first, but expectations are modest. The industry has been buying little steel or other materials.

Steel mill operations have improved from below 30 to around 36 per cent of capacity during the month, largely on expanded tinplate operations and miscellaneous orders. Warehouse stocks, covering wire products, construction materials, pipe and other steel sold through the jobbing trades, are reported low and ill-assorted, and buying has increased over the earlier part of the year. But the industry is not expected to improve more than moderately in the next month or two, in view of the low state of automobile, construction and railway buying.

Building contract awards in the first three weeks of March were seasonally larger than in January and February, and only 8 per cent below a year ago, which compares with a decline of about one-third in the first two months. Hopes that building will show improvement this Spring have been revived by the news from the Federal Housing Administration that applications for insurance on mortgages under Title II of the Housing Act have broken all previous records, and by reports of greater likelihood of small home construction in some areas. However, the retarding influences are considerable, including high building costs, reduced purchasing power and the insecurity of income.

Building costs have been reduced comparatively little over the past 6 to 9 months, according to general indexes. Material prices are a little lower, but wage scales are generally maintained and in some cases increases have been granted, complying with contracts made before the depression. Unemployment in the building trades is severe, and as usual the resulting pressure is improving the efficiency of those employed, but not enough to make up for the shorter hours, higher wages and restrictions on productivity that were put into effect in most centers during 1936 and 1937.

Textiles and Retail Trade

Among the cotton mills further curtailment is being talked. Cotton goods markets have been sluggish throughout the month. In rayons, both yarn shipments and weaving operations have increased, but further curtailment in yarn production is occurring, as manufacturers have accumulated as much stock as they wish to carry. Opening of Fall lines of woolen goods has begun, with prices 40 to 50c a yard less than a year ago; this permits a reduction of $1.50 to $2 in the retail prices of the popular chain clothing stores. Woolen mills expect to have a better season than they had on Spring goods, inasmuch as the extreme curtailment of production has reduced stocks of piece goods and clothing. Shoe factories are running on a moderate volume of orders, and expect to hold up better than usual after Easter due to reduced inventories.

It is everywhere expected that the industries making goods of everyday use, and especially perishables, will recover earlier than those making durable goods. But the market

position is not yet balanced in all lines, and these industries alone are hardly capable of turning the general situation upward this Spring.

Retail trade is sharply lower than a year ago. The Federal Reserve Board now collects department store figures over the country weekly, and in the four weeks ended March 19 sales were off 16 per cent. Interpretation of the comparison must allow for the fact that Easter is three weeks later this year; almost one-half of the decline is explained thereby. The business of the lower-priced chains and mail order houses, and rural trade generally, is off less than this.

The fact that retail sales are now lagging is amply explained by the various estimates of income and purchasing power issued by Government agencies. According to the Department of Labor the decline in factory payrolls in February, compared with a year ago, was 23 per cent; the Department of Agriculture reports that farm income was off 13 per cent. Business in all lines is better in the farm States than elsewhere, and the farm implement manufacturers continue to make a relatively good showing, compared with the recession in heavy machinery and equipment.

Money and Banking

The upward trend of bank reserves, begun in January with the retirement of Christmas currency from circulation, but interrupted temporarily during February, was resumed during the past month. In the four weeks ended March 23rd, the total reserves of the Federal Reserve membership increased nearly $100,000,000 to a new all-time peak of $7,333,000,000, while the surplus of reserves over legal requirements rose nearly $150,000,000 to $1,560,000,000, or only $80,000,000 below the total just prior to the third and final increase of reserve requirements last May. For the New York City weekly reporting banks, the gain in reserves was especially marked, totals of both actual and excess reserves advancing approximately $200,000,000 and $225,000,000, respectively, during the period, with the "excess" on the 23rd estimated at around $750,000,000, or higher than at any time since the second of the third increases of reserve requirements, put into effect on March 1 a year ago.

This further increase in the supply of bank cash was due in part to the paying out into the market of certain special deposits that had been carried temporarily in the Reserve banks, and in part to the Treasury's new policy with respect to gold. Under the new program, announced in February, the Treasury will permit gold acquisitions up to $100,000,000 quarterly to go unsterilized and hence to add to bank reserves, while gold for export will continue to be supplied, as before, out of the inactive gold fund without decreasing bank reserves. In other words, the United States, as far as gold is concerned, is on a "one-way street," increasing supplies of the metal adding to money market funds, but decreasing supplies not affecting those funds.

The influence of gold, as now handled, upon the credit structure is well illustrated by the banking statistics of the month. During the four weeks mentioned above, the inactive gold fund declined $31,000,000 (accompanying a drop of $32,000,000 in deposits of foreign banks in the Federal Reserve Banks); the total reported gold stock declined $3,000,000; and gold certificate holdings of the Reserve Banks increased $29,000,000. Evidently what happened was as follows: foreign banks holding dollar deposits in the Federal Reserve shifted a portion of these balances into gold which, in accordance with Treasury policy, was supplied out of the inactive fund; at the same time the Treasury bought from domestic gold production and imports $28,000,000 (the difference between the fall in the inactive stock and in the total stock), and paid for it with funds obtained by depositing gold certificates with the Reserve Banks. In this way the gold that was lost did not reduce bank reserves, while the gold that was received tended to increase reserves.

Other changes affecting the reserve position included a reduction in reserve requirements, accompanying a shrinkage of deposits, the effect of which was to expand excess reserves sharply. Currency movements, which were a large factor in building up reserves in January, exerted little influence during the past month, the volume of circulation remaining comparatively steady at a level a little under a year ago. In the case of the New York banks, the growth in reserves was in part due to a shifting of funds from the interior caused by payments of maturing Treasury bills which were held largely in this district. This necessitated transfers of a portion of the tax collections from other districts and reduced somewhat the volume of excess reserves in other districts. Inasmuch, however, as excess reserves for some time have been relatively higher in the interior than in New York, the change appeared to be in the direction of a better distribution of reserves than has prevailed heretofore.

Member Bank Credit at Two-Year Low

The volume of bank credit in use continues to decline. Owing chiefly to net redemptions of $350,000,000 of tax date Treasury bills immediately following March 15, the total earning assets of the weekly reporting member banks, for the four weeks ended March 23rd, declined approximately $250,000,000 to a new low since January, 1936. Holdings of United States Government securities alone declined $255,000,000 for all reporting banks, and $258,-

000,000 for the reporting banks in New York City. "Other" security investments were up $91,000,000, but loans dropped by an equivalent amount to a new low for the year, mainly because of a continued liquidation of business loans, and to a smaller extent to reductions in loans on real estate and in loans to brokers and others for the purpose of carrying securities. Brokers' loans at New York advanced temporarily during the first two weeks of March, evidently reflecting borrowing by dealers to carry Treasury notes maturing on the 15th with conversion privileges, but fell off again in the latter half of the month.

Deposits declined heavily in consequence of tax collections, and save for a short period at the end of last year reached the lowest since April, 1936.

Rail and Foreign Bonds Weaken

In the bond market, the outstanding feature was the renewed weakness of railroad bonds, and the collapse of Central European issues following the German move into Austria. Railroad bonds declined in all groups, including primest issues, with the lower grade bonds showing wide breaks to levels in many instances not seen since 1932. Higher rated public utility and industrial bonds, on the other hand, were generally steady. The following table gives Moody's averages of corporate bond yields by groups and classes, showing net changes in yields during the first quarter of this year, and high and low average yields for the period 1932-1938.

Moody's Corporate Bond Yield Averages

	Dec.31, 1937	Mar.28, 1938	Change	1932-38 High	1932-38 Low
120 Corporate	4,27	4.79	+ .52	8.74	3.64
Aaa	3.21	3.32	+ .11	5.75	3.07
Aa	3.56	3.88	+ .32	7.03	3.27
A	4.29	4.70	+ .41	9.23	3.74
Baa	6.02	7.24	+1.22	12.96	4.46
40 Railroad	5.14	6.56	+1.42	10.49	3.92
Aaa	3.59	3.89	+ .30	6.75	3.29
Aa	4.15	5.19	+1.04	8.14	3.45
A	5.08	6.26	+1.18	10.94	3.92
Baa	7.75	10.89	+3.14	16.25	4.97
40 Public Util.	4.04	4.12	+ .08	7.66	3.66
Aaa	3.09	3.09	-0-	5.08	3.05
Aa	3.36	3.37	+ .01	5.98	3.29
A	4.02	4.04	+ .02	8.31	3.80
Baa	5.67	5.96	+ .29	11.53	4.47
40 Industrial	3.64	3.68	+ .04	8.11	3.34
Aaa	2.95	2.97	+ .02	5.67	2.86
Aa	3.18	3.08	— .10	7.15	3.05
A	3.77	3.80	+ .03	8.51	3.50
Baa	4.64	4.88	+ .24	11.21	3.91

As indicated above, the rise over the past three months of yields in the combined averages for 120 bonds was due largely to changes in the railroad group, though averages for bonds of Baa rating advanced ¼ of 1 per cent or more in all groups. Attention is directed to the sharp rise of yields on Baa rails to 10.89 per cent, compared with a "high" of 16.25 per cent in 1932; for many of the more speculative rails, yields, where interest was paid at all, reached levels higher even than in 1932. Indicative also of unusual conditions in the market was the fact that at the close of March Aaa rated railroad bonds were selling at prices to yield a shade more than A rated industrials.

United States Government bonds were strong early in the month, but sold off towards the close. March Treasury financing included an exchange offer of new 10½-year 2½ per cent bonds, at par, for $455,000,000 maturing 3 per cent notes. Approximately 97 per cent of the notes were tendered for exchange into the bonds, which subsequently rose to a high of 101¾, later reacting to 101.

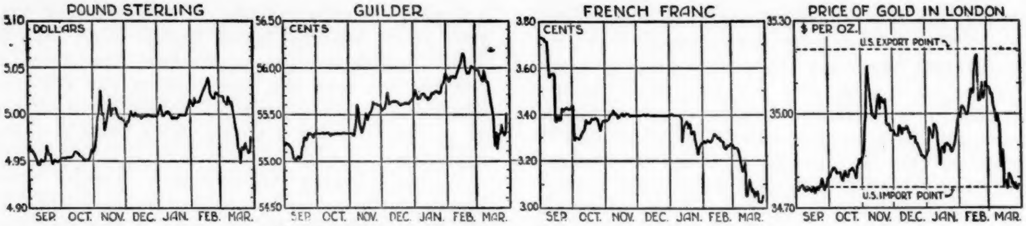
Foreign Exchange and Gold Movements

The political alarms and changes of the past month produced another upheaval in the foreign exchange markets, and once more timid capital has been scurrying for comparative safety westward across the Atlantic. Following several months during which the dollar was persistently weak, as foreign capital grew increasingly distrustful of economic conditions and prospects in this country, the tide has been suddenly reversed. Whatever fears Europe has had of the situation here have given way to greater fears of the situation at home. While the movement of funds from the Continent to London has continued and accelerated, dollars have been in the ascendancy against practically all currencies. Sterling exchange, which had moved upward by irregular stages from $4.95 in September and October to a peak of almost $5.04, plummetted under heavy selling to a low of $4.94⅝, later recovering to around $4.96 when the liquidation had expended much of its earlier force.

In similar fashion, Dutch guilders and Swiss francs, which had been advancing for months against the dollar, reversed themselves, and under heavy pressure, dropped a full cent and one-half of one cent, respectively, to the lowest since last September before a rallying point was found. The French franc, which has been having serious troubles of its own for some time owing to the political dissension and economic situation in France, fell to a new low of 3.01¼ cents, equivalent to 1.78 cents in terms of the former dollar and about 9 per cent of the value of the pre-war gold franc.

Belgian exchange dropped to the gold export point, and in three weeks ending March 25, the National Bank lost approximately $65,000,000 in gold, mainly to London.

Repercussions of the political crisis appeared in European security markets, prices on the London and Amsterdam stock exchanges declining severely, while British Government consols lost approximately seven points before a rally. In the London gold market, heavier



Foreign Exchange Rates and Price of Gold in London
(Gold Price in Dollars, Converted at Daily Closing Exchange Rates.)

bidding by Continental gold hoarders advanced the sterling price of gold from 139 shillings 6½ pence to 140 shillings 3½ pence; owing, however, to the rapid fall of sterling the dollar price of gold in London fell to the export point, and once more gold was engaged in the open market for shipment to New York. To date, the total of such purchases has amounted to $19,000,000, and in addition gold has been diverted to this market from other quarters, including Belgium, India and Japan.

The Services of Gold

The events that have transpired are further evidence of state of fear and confusion that exists throughout the world, and that is blocking the way to economic recovery. This extraordinary shunting of gold from country to country and back and forth across the ocean is symptomatic of a state of mind that is destructive of normal business relations and of the employment of capital in enterprises that give work to the people and maintain the flow of goods necessary to support and advance the standard of living.

Moreover, what has happened has demonstrated anew the services of gold as the international standard of value and medium of payments. Repeatedly the statement is made that, with most of the countries of the world on a managed currency basis, gold has outlived its usefulness. But how can the currencies be "managed" without gold? Some universally acceptable commodity there must be for the settlement of international balances, else attempts by the so-called stabilization funds to hold the exchanges in order become nothing more nor less than vast gambles in paper currencies. And what commodity fulfils this need better than gold? The "tripartite agreement" between the governments of the United States, Great Britain and France, and subsequently joined by the governments of Belgium, Switzerland and Holland, was a recognition of the necessity for cooperative effort in maintaining the stability of exchange, and this agreement is made effective through the willingness of the contracting parties to buy and sell gold among themselves as the needs of the situation dictate.

In times of crisis the sure instinct of mankind always has manifested a preference for gold as the one commodity most likely to afford a means of preserving wealth through all vicisitudes. This has been true throughout history, and it has not been less true in the recent past.

The Situation in Mexico

For some months past liquid funds in Mexico have been leaving the country partly in fear of the nationalization program and partly because of conditions imposed by labor which have resulted in an epidemic of strikes. These matters were brought to a head by a recent decision of the Mexican Supreme Court upholding the sentence of the Labor Court of Arbitration with respect to wage and other awards granted to oil workers which awards the companies declared were impossible of fulfillment. As a result of this deadlock the oil holdings in which an important sum of American and foreign capital is invested were nationalized under decree of March 18. As of the same date the central bank withdrew its support from the exchange market. Subsequently, the peso broke down from the 27.77 cent (U.S.) level at which it had been pegged to the dollar since 1932 and it is now selling between 22 and 23 cents (U.S.).

Another factor in the exchange situation has been the Government's extensive public works program, including power development, and building of highways and railroads. This has necessitated large purchases of foreign industrial equipment, much of which came from the United States. Moreover, these expenditures have had an inflationary effect, and rising prices have also exerted an unfavorable influence upon the trade balance. In 1937 our own merchandise exports to Mexico rose to $109,000,000, as against imports of $60,000,000, leaving a balance in our favor of $49,000,000, compared with $27,000,000 in 1936. These figures, of course, do not allow for our silver purchases from Mexico or for the growing tourist trade. In an effort to rectify her trade position, Mexico announced drastic tariff increases in January.

In view of the developments in Mexico, the following table showing the principal items of merchandise trade between the two countries in 1936 may be of interest.

U. S. Trade with Mexico in 1936
(In Thousand Dollars)

Imports from Mexico		Exports to Mexico	
Coffee	5,567	Industrial Machinery	10,950
Bananas	6,107	Agricultural Machinery	2,228
Tomatoes	1,284	Electrical Machinery	5,606
Cattle	1,957	Trucks, Cars & Acces.	11,683
Sisal and Henequen	7,160	Airplanes	2,922
Chicle Gum	1,218	Structural Steel, etc.	6,215
Binding Twine	1,411	Tools & Advanced Mfrs.	3,404
Crude & Refined Oil	5,303	Petroleum Products	2,622
Refined Copper	3,847	Chemicals	5,305
Lead, Zinc, Antimony, etc.	2,380	Paper & Manufactures	1,877
All other	12,704	Cotton & Manufactures	1,092
		All other	22,130
Total	48,938	Total	76,041

The action of the United States Government in March in suspending its monthly purchase of silver direct from the Mexican Government, and in lowering the price it will pay for foreign-mined silver in the open market by 2 cents to 43 cents, undoubtedly adds to the difficulties of the Mexican situation. Over the past two years Mexico has produced over 160,000,000 ounces of silver, a large part of which is understood to have been taken by the United States Treasury. Valued at 45 cents, the price that has prevailed over the greater part of this period, this silver was worth about $72,000,000.

Profits of Leading Corporations in 1936-37

With the release during the month of a large number of additional statements for the year 1937, the publication of reports by leading corporations has now been practically completed. An examination of the recent reports, including detailed income accounts of many companies whose preliminary figures had already been issued, confirms the highly uneven showing of the tabulation that was presented a month ago.

The most outstanding characteristic of the annual and interim reports for 1937 is the rapid decline in volume of business and earnings that occurred during the latter months of the year. This downward trend is reflected only in part in the statements covering the full year. According to official comments and estimates regarding current business that have been submitted at numerous meetings of shareholders, the effects of the lower level of operations will be much more evident in the reports for the first quarter of 1938 that soon will be issued.

Although the total profits of the manufacturing and trade groups in 1937 were slightly higher than in 1936, the grand total, including railroad, public utility and financial companies, was slightly lower. Combined net profits, after taxes, of 2,280 leading companies in all lines declined from approximately $3,747,000,000 to $3,505,000,000, or by 6.5 per cent.

These companies had an aggregate net worth of $52,293,000,000 at the beginning of last year, upon which the average rate of return was 6.7 per cent, against 7.3 per cent in 1936. A summary of the results, classified by major industrial groups, is given on the following page.

In interpreting the figures in the table, it should be borne in mind that the data, while instructive as an important sampling of the leading industries, are incomplete. Hence, any conclusions as to the profits of business as a whole should be made guardedly, pending publication by the Treasury Department of the Official Statistics of Income, which, unfortunately, is usually about two years late, and only recently has become available through 1935.

Mixed Showing of the Industries

Taking first the industrial and trade corporations, it will be seen that 1,720 companies that have reported to date had combined net profits after taxes of approximately $2,744,000,000, which compares with $2,524,000,000 for the same companies in 1936 and represents an increase of 8.7 per cent.

It is significant that most of the large gains were concentrated in a few industries, such as iron and steel, copper and other non-ferrous metals, agricultural implements, electrical equipment, railway equipment and other machinery, also amusements, petroleum and paper. Many companies in these lines enjoyed a further sharp recovery in sales and earnings last year, following an extended period during which earnings were severely depressed and deficits frequently reported. This trend was definitely reversed during the Fall and Winter, however, because of the falling off of new orders.

Without these ten groups, which comprise 436 companies, the combined net profits of the forty-three other manufacturing and trade groups, numbering 1,284 companies, actually declined from $1,738,000,000 to $1,628,000,000, or by 6.3 per cent. During the first half of 1937, earnings of most leading companies in these lines showed increases over the preceding year. The rise in labor and other costs, however, combined with the slowing down of volume and year-end adjustments of inventory and tax reserves, more than offset the earlier gains.

Profit Margins Narrowed in 1937

A comparison of the sales figures, which are being made available by a steadily growing number of companies, shows gains over the preceding year in a great majority of cases. Under normal conditions, this should produce an even greater rise in net profits. Last year, however, because of the rise that occurred in costs for labor, materials and taxes, plus the year-end adjustments and reserves, profit margins of many companies were narrowed and in numerous instances disappeared entirely.

PROFITS OF LEADING CORPORATIONS FOR THE YEARS 1936 AND 1937

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits Years 1936	Net Profits Years 1937	Per Cent Change	Net Worth January 1 1936	Net Worth January 1 1937	Per Cent Change	Per Cent Return 1936	Per Cent Return 1937
10	Agricultural Implements	$ 57,060	$ 65,942	+ 15.6	$477,669	$508,777	+ 6.5	11.9	13.0
19	Amusements	35,677	47,161	+ 32.2	370,005	393,278	+ 6.3	9.7	12.0
29	Apparel	12,590	7,404	— 41.2	105,262	107,154	+ 1.8	12.0	6.9
20	Automobiles	318,954	258,611	— 18.9	1,235,396	1,300,714	+ 5.3	25.8	19.9
67	Auto Accessories	61,178	63,806	+ 4.3	359,901	382,813	+ 6.4	17.0	16.7
23	Aviation	6,104	8,660	+ 41.9	83,327	105,496	+ 2.7	7.3	8.2
21	Bakery	25,345	22,737	— 10.3	295,843	298,410	+ 0.9	8.6	7.6
81	Building Materials	51,308	60,693	+ 18.3	652,387	673,762	+ 3.3	7.9	9.0
31	Chemicals	203,839	211,916	+ 4.0	1,328,326	1,358,553	+ 2.3	15.3	15.6
24	Coal Mining	3,402	222	— 93.5	422,893	415,573	— 1.7	0.8	......
23	Confectionery and Beverages	39,992	42,606	+ 6.5	190,825	193,221	+ 1.3	21.0	22.1
12	Construction	1,900	3,164	+ 66.6	70,434	70,557	+ 0.2	2.7	4.5
26	Containers	47,217	47,160	— 0.1	416,837	438.159	+ 5.1	11.3	10.8
54	Cotton Goods	11,635	11,187	— 3.9	243,481	250,558	+ 2.9	4.8	4.5
10	Dairy Products	25,959	21,498	— 17.2	270,404	273,430	+ 1.1	9.6	7.9
21	Drugs and Sundries	38,916	39,459	+ 1.4	188,609	197,850	+ 4.9	20.6	19.9
60	Electrical Equipment	110,825	141,281	+ 27.5	946,046	905,274	— 4.3	11.7	15.6
7	Fertilizer	1,457	5,736	+	97,541	90,105	— 7.6	1.5	6.4
44	Food Products—Misc.	85,083	62,993	— 26.0	707,092	711,534	+ 0.6	12.0	8.9
43	Hardware and Tools	21,004	27,120	+ 29.1	169,265	183,461	+ 8.4	12.4	14.8
30	Heating and Plumbing	27,647	33,501	+ 21.2	312,258	328,399	+ 5.2	8.9	10.2
64	Household Goods and Supplies	55,564	61,869	+ 11.3	432,914	442,407	+ 2.2	12.8	14.0
11	Ice and Cold Storage	4,162	4,056	— 2.5	88,159	73,066	— 1.7	4.7	5.6
58	Iron and Steel	149,739	230,414	+ 53.9	3,291,185	3,329,866	+ 1.2	4.5	6.9
8	Leather Tanning (a)	2,067	1,234	— 40.2	45,757	38,827	—15.1	4.5	3.2
49	Liquors	29,921	27,472	— 8.2	166,556	176,670	+ 6.1	18.0	15.5
97	Machinery	56,149	75,965	+ 35.3	448,932	479,750	+ 6.9	12.5	15.8
22	Meat Packing	31,024	18,759	— 39.5	565,270	584,113	+ 3.3	5.5	3.2
15	Mdse.—Chains, Food	33,797	20,265	— 40.0	347,143	350,255	+ 0.9	9.7	5.8
45	Mdse.—Chains, Other	105,917	100,260	— 5.3	628,919	649,291	+ 3.2	16.8	15.4
33	Mdse.—Dept. Stores	29,304	21,187	— 27.7	400,983	409,892	+ 2.2	7.3	5.2
6	Mdse.—Mail Order	55,830	53,478	— 4.2	366,298	438,337	+19.7	15.2	12.2
38	Mdse.—Wholesale, etc.	11,245	11,648	+ 3.6	147,951	159,657	+ 7.9	7.6	7.3
11	Mining, Copper	58,551*	104,533*	+ 78.5	1,043,926	1,055,170	+ 1.1	5.6	9.9
37	Mining, Other Non-Ferrous	113,230*	145,685*	+ 28.7	975,849	1,074.288	+10.1	11.6	13.6
20	Office Equipment	32,832	42,192	+ 28.5	203,158	209,517	+ 3.1	16.2	20.1
11	Paint and Varnish	12,621	11,912	— 5.6	110,039	115,057	+ 4.5	11.5	10.4
43	Paper and Products	18,590	32,406	+ 74.3	511,045	494,454	— 3.2	3.6	6.6
71	Petroleum	162,661	216,572	+ 33.1	1,957,155	2,062,315	+ 5.4	8.3	10.5
10	Petroleum—Pipe Line	6,453	7,246	+ 12.3	70,323	69,429	— 1.3	9.2	10.4
33	Printing and Publishing	20,321	15,595	— 23.2	165,950	164,614	— 0.8	12.2	9.5
30	Railway Equipment	23,299	55,303	+	729,667	734,567	+ 0.7	3.2	7.5
10	Restaurant Chains	2,394	1,798	— 24.9	53,165	53,506	+ 0.6	4.5	3.4
22	Rubber Tires, etc.	42,699	29,217	— 31.6	430,583	458,213	+ 6.4	9.9	6.4
7	Shipping (a)	4,693	1,898	— 59.6	101,195	99,285	— 1.9	4.6	1.9
19	Shoes	15,760	12,839	— 18.5	172,880	176,697	+ 2.2	9.1	7.3
27	Silk and Rayon	13,534	14,543	+ 7.5	146,861	153,335	+ 4.4	9.2	9.5
39	Sugar	25,238	24,794	— 1.8	396,662	405,965	+ 2.3	6.4	6.1
24	Textile Products—Misc.	18,266	14,075	— 22.9	130,052	135,740	+ 4.4	14.0	10.4
28	Tobacco	98,255	97,926	— 0.3	764,255	762,337	— 0.3	12.9	12.8
7	Woolen Goods	4,631	D-314	—	95,786	98,453	+ 2.8	4.8	......
112	Misc. Manufacturing	88,162	95,369	+ 8.1	650,748	664,700	+ 2.1	13.5	14.3
58	Misc. Services	9,899	10,567	+ 6.8	222,319	223,915	+ 0.7	4.5	4.7
1,720	Total Mfg. and Trading	$2,523,900	$2,743,620	+ 8.7	$24,805,486	$25,530,766	+ 2.9	10.2	10.7
141	Class I Railroads	165,484	98,527	— 40.5	13,781,871	13,617,853	— 1.2	1.2	0.7
90	Electricity, Gas, etc. (b)	268,745	275,511	+ 2.5	4,575,555	4,522,825	— 1.1	5.9	6.1
30	Telephone and Telegraph	210,525	208,497	— 1.0	3,207,444	3,163,294	— 1.4	6.6	6.6
26	Traction and Bus	109	D-7,763	—	504,318	492,003	— 2.4	......	......
67	Banks and Trust Companies	215,649*	185,011*	— 14.2	2,085,936	2,171,853	+ 4.1	10.3	8.5
68	Insurance Companies (c)	218,007	D-125,420	—	837,958	992,293	+18.4	26.0	......
72	Investment Trusts (d)	88,852*	68,573*	— 22.8	1,208,214	1,339,735	+10.9	7.4	5.1
28	Sales Finance Companies	56,072	58,452	+ 4.2	321,163	343,856	+ 7.1	17.5	17.0
38	Real Estate	D-672	D-317	......	119,028	118,243	— 0.7	......	......
2,280	Grand Total	$3,746,671	$3,504,691	— 6.5	$51,446,973	$52,292,721	+ 1.6	7.3	6.7

D- Deficit. (a) Sample not representative of all branches of the industry because of the limited number of published reports available. (b) Figures refer to shareholders only. Because of the large proportion of bonded indebtedness, actual return on the property investment is less than the above. (c) Fire and casualty. Figures represent shareholders' combined gains or losses on underwriting and investments. (d) Net income shown as reported, not including such profits or losses on investments sold as were carried directly to surplus or reserves or changes in the market value of portfolios. *Before certain charges.

The accompanying table shows the sales in 1937 of leading corporations in a number of major lines of manufacturing and merchandising, the net profit after taxes and the percentage of profit to sales; with comparative percentages for 1936. Net profits as reported include not only income from sales, but also income from other operations and from investments, which results in some over-statement of the actual margin of profit derived from sales.

Net Profit on Sales of Leading Corporations In 1936 - 1937
(In Thousands of Dollars)

No.	Manufacturing	Sales 1937	Profits* 1937	Profits to Sales 1937	Profits to Sales 1936
8	Agricultural Implements	$ 571,532	$ 62,752	11.0%	13.2%
16	Automobiles	2,709,168	258,438	9.5	12.5
24	Auto Accessories	336,302	21,317	6.3	6.5
38	Building Materials	335,610	28,806	8.6	7.1
17	Chemicals	299,594	44,895	15.0	12.5
13	Containers	431,789	41,070	9.5	9.9
24	Cotton Goods	274,823	8,720	3.2	4.3
9	Dairy Products	790,826	21,141	2.7	3.5
11	Drugs and Sundries	294,154	25,486	8.7	7.5
20	Electrical Equipment	1,045,564	125,973	12.1	11.5
36	Food Products—Misc.	939,877	50,361	5.4	6.8
12	Heating and Plumbing	303,994	26,384	8.7	7.4
34	Household Goods	523,767	48,612	9.3	8.8
38	Iron and Steel	3,036,595	226,286	7.5	5.9
30	Liquors	251,487	21,205	8.4	9.7
20	Meat Packing	2,567,592	18,730	0.7	1.3
12	Office Equipment	261,342	36,410	13.9	11.6
25	Paper and Products	203,354	14,523	7.1	4.9
29	Petroleum	1,433,159	163,251	11.4	9.6
13	Rubber Tires, etc.	797,813	27,060	3.4	5.9
13	Shoes	262,036	11,723	4.5	6.4
12	Tobacco	968,897	84,283	8.7	9.6
161	Misc. Manufacturing	1,834,828	144,024	7.9	9.0
615	Total Manufacturing	20,474,103	1,511,450	7.4	7.6
	Merchandising				
12	Chains—Food	1,823,725	17,084	0.9	1.5
40	Chains—Other	1,605,132	99,308	6.2	6.9
22	Dept. Stores	341,861	6,780	2.0	3.8
5	Mail Order	1,041,984	53,148	5.1	5.9
16	Wholesale, etc.	272,175	7,434	2.7	2.1
95	Total Merchandising	5,084,877	183,754	3.6	4.8
710	Total Mfg. & Mdse.	$25,558,980	$1,695,204	6.6	7.0

*Including investment and miscellaneous income.

A total of 615 manufacturing corporations, which had combined sales of $20,474,000,000 last year, reported net profits of $1,511,000,000 (including investment and miscellaneous income), which was at the rate of 7.4 cents per dollar of sales. In 1936, the average rate was 7.6 cents.

It will be observed that in ten industries which experienced a recovery in volume and in dollar profits last year, there was also an increase in margin of profit. In thirteen groups, however, the increase in profits lagged behind the expansion in sales, or else profits showed an actual decrease despite the larger volume of business.

There was a pronounced trend toward narrower margins last year among representative companies in such important industries as meat packing, dairy and miscellaneous food products, liquors, tobacco, textiles, shoes, automobiles and tires.

These profit ratios are of course figured on the wholesale price of goods—not the retail selling price. The portion of the consumers' dollar that represents the manufacturer's profit would be considerably less, because of the intermediate costs of transportation, distribution and taxes that enter into retail prices.

Most merchandising corporations also had narrower margins of net profit last year, despite an expansion in sales, as shown by the results of 95 chain store, department store, mail order and wholesale organizations having a total volume of $5,085,000,000.

The smallest margin was that of a group of 12 food chains, which handled (and to some extent packed and processed) $1,824,000,000 of groceries, meats, fruits, vegetables, etc., upon which they realized an average profit of but 9/10 of one cent to each dollar of sales. Last year the margin on sales and the return on invested capital both declined. Earnings in this business have been burdened not only by the increase in prices paid for many food products, increases in wages and shortening of hours, but also by the continued spread of federal and local taxes, some of which are highly discriminatory and the sum-total of which was in excess of net earnings.

Railroad Earnings Drop Sharply

Total freight revenues of the class 1 steam railroads last year were 2 per cent larger than in 1936, and passenger revenues were 8 per cent larger. Net operating income, however, was held down by the wage increases granted to employes, by higher costs for fuel and materials, and by higher taxes, so that it fell 12 per cent under that of the preceding year.

After payment of interest charges, the balance of net income dropped from $165,000,000 to $99,000,000, or by 40 per cent. Upon the railroad shareholders' equity of $13,000,000,000, these balances represented a return of but 1.2 per cent in 1936 and 7/10 of one per cent in 1937.

The decline of railroad traffic that has continued into 1938, together with the relatively inflexible expense structure, has brought about a virtual collapse of railroad earnings, and has depressed the market for many railroad bonds and stocks to the lowest quotations in years. The January net operating income, before interest charges, of all class 1 roads dropped from $39,000,000 last year to $7,000,000 this year, while February brought a deficit, before interest, of $2,000,000 and was the worst month in seventeen years.

Although the increases recently authorized by the Interstate Commerce Commission in freight rates on certain commodities should

prove of some assistance to the railroads, it does not remove the more basic causes of their difficulties, such as having a wage scale above the 1929 peak level, a tax bill of $1,000,000 per day and current traffic running below even the 1932 depression level. With over one-third of the total railway mileage already in receivership or bankruptcy, the crisis now being faced by the American railroad system is undoubtedly one of the chief reasons for the prevailing uncertainty in the general economic outlook.

Utility Earnings and Taxes

A group of 90 leading public utility systems supplying electric, gas and other services had a small increase in gross receipts last year. Despite lower rates charged consumers, and higher operating expenses and taxes, many systems reported some increase in net income. Tax assessments last year absorbed one-sixth of the entire public utility receipts.

Thirty major telephone and telegraph systems had an increase in revenues, but a decrease in net income, because of higher operating expenses and taxes. The American Telephone & Telegraph Company and its principal telephone subsidiaries paid taxes of $137,600,000 in 1937, compared with $116,800,000 in 1936 and $76,000,000 in 1927. Bell System taxes last year were equivalent to $9.21 for every telephone in service (including extension and private branch exchange instruments).

Financial Corporations Earnings Lower

Operating earnings of banks and trust companies, insurance companies and investment trusts last year were affected adversely by the low level of interest rates and the decline in security values, both of which have continued into 1938.

In the tabulation showing the groups of leading companies in the financial field, the net profit figures are taken as reported, and do not include such profits and losses on investments, or charge-offs and recoveries on loans, as were carried directly to surplus or reserves.

In the case of the fire and casualty companies, however, the figures represent shareholders' combined gains or losses from underwriting and investments, including changes in surplus account resulting from changes in value of securities held in portfolio. Because of the shrinkage in bond and stock values, many insurance companies showed book losses last year on this basis of accounting.

Dividend Reductions and Omissions

Dividend payments in 1937 were 10 per cent larger than in 1936, according to the New York Times record of all declarations publicly announced. Although in both November and December the totals were moderately below those of the same months of the year before, the federal surtax on undistributed income undoubtedly caused many companies to continue until the end of last year the payment of dividends that were not being currently earned, in order to avoid the heavy penalty for retaining earnings of earlier months.

Since the first of this year, the trend of dividend payments has been sharply downward. For example, figures for the first quarter of 1938 show reductions by 187 companies, in contrast with the first quarter of 1937, when dividends were reduced by only 6. Dividends were omitted or "passed" by 220 companies in the first quarter this year, against only 8 last year. At the same time, changes of a favorable nature, such as initial, resumed, increased, extra and back (or accumulated) dividends, have been far fewer than a year ago.

This swift reversal in the course of dividends illustrates the natural tendency of the surtax on undistributed income to accentuate the upward and downward cycles of business. It puts pressure upon the management to distribute a large share of the earnings—in the years when there are earnings—rather than permitting a corporation to maintain a reasonably uniform dividend rate by building up surplus in good years and dipping into surplus in lean years.

The Showing of All Corporations

We have referred previously to the official Statistics of Income which are compiled by the Treasury Department from tax returns and show the results for all corporations. Figures for 1935 have only recently been published and are given for reference in the condensed summary for the years 1926 - 1935:

All Active Corporations in the United States
(In Millions of Dollars)

Year	Gross Income	Taxes Paid	Net Inc. aft. Tax§	Net Inc. to Gross	Net Worth	Net Inc. to Net Worth
1926	$142,629	$3,108	$6,774	4.74	$113,957	5.94
1927	144,899	3,145	5,880	4.06	119,260	4.93
1928	157,848	3,387	7,636	4.83	132,403	5.76
1929	161,158	3,415	8,084	5.01	142,887	5.65
1930	138,848	3,009	1,375	0.99	160,369	0.86
1931	108,057	2,630	–3,145	–2.91	161,082	–1.95
1932	81,638	2,373	–5,375	–6.58	143,263	–3.75
1933	84,234	2,547	–2,378	–2.82	133,569	–1.78
1934	101,495	2,758	162	0.16	127,578	0.13
1935	111,636	3,363	1,674	1.50	141,585	1.18
Average 1926-35	$123,244	$2,973	$2,069	1.68	$137,595	1.50

Source: Compiled from annual Statistics of Income, Treasury Department. – Deficit. § Includes interest received on tax-exempt obligations, but excludes intercorporate dividends received.

In 1935 — the third year of recovery in earnings — there were still only 34 per cent of the 477,113 active corporations that reported any net income, while 66 per cent had none. The combined net income, after deducting deficits and taxes paid, was at the rate of 1.50 per cent on sales or gross income, and represented a return of 1.18 per cent on net worth.

The total shareholders' investment in the nation's corporate structure, based upon the balance sheet value of preferred and common stock, plus surplus account, has declined from $161,082,000,000 at the beginning of 1931 to $138,932,000,000 at the end of 1935. This shrinkage of business capital by $22,000,000,000 or one-eighth, within a period of five years, was the result of operating deficits, payment of dividends in excess of earnings, writing down of assets and liquidations.*

Simplified Financial Statements

This year an interesting feature of the reports issued by leading corporations is the greater detail presented as to the disposition of gross income. Some companies have given, in addition to the usual audited income accounts and balance sheets, a condensed summary, or "short form statement", based upon the same figures, for the information of their employes, customers and the public. Other companies have shown what the average results have been over a period that included both good and poor years. Such statements show in very simple form how the income, remaining after payment for goods and services purchased and other expenses, is divided among the company's employes, its stockholders, and the share that goes in the form of taxes to the third partner—Government.

The United States Steel Corporation, one of the world's largest industrial organizations, used this form in a summary of its operations for the nine years ended December 31, 1936, which was published in its employes' magazine and is reprinted in the adjoining column.

The statement speaks for itself and needs little comment. If the taxes paid were considered as a sharing of profits, however, rather than an expense, the division of available income to the employes in return for their services, to the shareholders for the use of the "tools" that they provided in the form of plant, machinery, materials and cash, and to the various governments would be as follows:

	(000,000s Omitted)	
Income remaining after cost of goods and services purchased from others, depreciation, depletion and interest	$3,245	100.0%
Divided as follows:		
Wages and salaries	2,502	77.0
Cost of "tools"	405	12.5
Taxes paid	379	12.0
Total	3,286	101.3
Withdrawn from capital	41	1.3

Investment in plant and current assets of the Steel Corporation amounts to an average of $7,300 for each employee.

*The actual shrinkage of capital was even larger than is shown by these figures, because of the elimination since 1934 of consolidated returns and the requirement that separate statements be filed for the parent and each subsidiary company, which introduces some duplication.

United States Steel Corporation
January 1, 1928, to December 31, 1936
(000,000s Omitted)

U. S. Steel received from the public in exchange for goods and services		$5,921
This was disposed of as follows:		
Items over which U. S. Steel had no control:		
Goods and services purchased from others	$2,142	
Taxes	379	
Depreciation and depletion	457	2,978
(Of which $87,000,000 was wages paid directly by U. S. Steel and not included in "Wages" below)		
Balance remaining (being 49.7% of the Gross Receipts)		$2,943
Disposed of as follows:		
Wages and salaries (being 85% of "balance remaining")		2,502
Leaving a balance of		$ 441
Disposed of as follows:		
Interest paid for the use of assets representing savings, the ownership of which is evidenced by bonds and mortgages	$ 77	
Dividends paid for the use of assets representing savings, the ownership of which is evidenced by preferred and common stock, being 13.7% of "balance remaining"	405	482
Leaving a deficit of provided from savings made on behalf of the owners by U. S. Steel during prior periods.		$ 41

(The sum of $482,000,000 paid for the use of assets by U. S. Steel reduced to an average annual return on the average amount of assets used during the period amounts to 2.829% per year. Since $41,000,000 was withdrawn from prior earnings, the earned return was 2.497% per year.)

Wage and salary payments as stated represent the direct payments to labor by this organization but of course do not measure the large portion of total receipts that goes to labor indirectly, by way of the goods and services purchased from others, new construction, etc., in which labor is a major element of cost.

The same formula and terminology could be applied to any corporation for summarizing the division of income among its "three partners", provided the statement of its operating expenses is broken down to show separately the wages and salaries paid, and the total taxes paid or accrued.

Simplified or "short form" statements, similar to that of the Steel Corporation, covering last year or a period of years, have recently been issued by such organizations as the Bethlehem Steel Corporation, Goodyear Tire & Rubber Company, Johns-Manville Corporation, Monsanto Chemical Company and Detroit Edison Company, and could be prepared readily by other corporations in the different lines of industry, trade, transportation, etc., from information already in the records. Such statements show the truth about business profits in a form that any intelligent reader can understand, and should help in correcting the mistaken opinions on the subject that still are so often expressed.

The National City Bank of New York

Head Office · 55 WALL STREET · *New York*

Seventy-three Branches in Greater New York

Seventy-one Offices in Twenty-four Foreign Countries

Condensed Statement of Condition as of March 31, 1938

INCLUDING DOMESTIC AND FOREIGN BRANCHES

ASSETS

Cash and Due from Banks and Bankers		$ 634,261,100.79
United States Government Obligations (Direct or Fully Guaranteed)		370,621,979.70
State and Municipal Bonds		106,417,185.73
Other Bonds and Securities		116,710,578.15
Loans, Discounts and Bankers' Acceptances		569,370,705.22
Customers' Liability Account of Acceptances		13,032,603.85
Stock in Federal Reserve Bank		3,675,000.00
Ownership of International Banking Corporation (Including Paris Office)		8,000,000.00
Bank Premises		49,685,947.85
Other Assets		13,651,097.71
Total		$1,885,426,199.00

LIABILITIES

Deposits		$1,694,472,206.09
Liability as Acceptor, Endorser or Maker on Acceptances and Bills	$46,141,933.27	
Less: Own Acceptances in Portfolio	14,952,636.89	31,189,296.38
Items in Transit with Branches		10,315,190.11
Reserves for:		
Unearned Discount and Other Unearned Income		3,608,182.89
Interest, Taxes, Other Accrued Expenses, etc.		8,117,390.27
Dividend		1,550,000.00
Capital	$77,500,000.00	
Surplus	45,000,000.00	
Undivided Profits	13,673,933.26	136,173,933.26
Total		$1,885,426,199.00

Figures of Foreign Branches are as of March 25, 1938.

$108,108,271.65 of United States Government Obligations and $33,498,996.97 of other assets are deposited to secure $112,075,785.06 of Public and Trust Deposits and for other purposes required by law.

(Member Federal Deposit Insurance Corporation)

City Bank Farmers Trust Company

Head Office · 22 WILLIAM STREET · *New York*

Condensed Statement of Condition as of March 31, 1938

ASSETS

Cash and Due from Banks	$ 20,242,907.41
United States Government Obligations (Direct or Fully Guaranteed)	26,879,379.94
State and Municipal Bonds	9,919,132.94
Other Bonds and Securities	15,081,283.74
Loans and Advances	6,445,594.70
Stock in Federal Reserve Bank	600,000.00
Bank Premises	4,241,387.25
Other Assets	2,216,570.00
Total	$ 85,626,255.98

LIABILITIES

Deposits	$ 58,298,701.15
Reserves	3,103,941.34
Capital	10,000,000.00
Surplus	10,000,000.00
Undivided Profits	4,223,613.49
Total	$ 85,626,255.98

$1,370,000.00 of United States Government Obligations and $136,000.00 of State and Municipal Bonds are deposited with public authorities for purposes required by law.

(Member Federal Deposit Insurance Corporation)

Printed in U.S.A.